MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BAE2014 –SEMINAR IN ANALYTICAL ECONOMICS
(All sections/Groups)

1 March 2019
3.00 pm – 5.00 pm
(2 hours)

INSTRUCTION TO STUDENT

1. This **THREE (3) pages** of question paper consists of **TWO (2)** sections, **SECTION A** and **SECTION B.** Section A consists of **TWO (2) Passage Reviews** and Section B consists of **TWO (2) Structured Questions.**
2. **Answer all questions.**
3. Marks are shown at the end of each question.
4. Write all your answers in the answer booklet provided.

SECTION A: PASSAGE REVIEWS (Total : 40 Marks)

Question One (Total: 20 marks)
Read Passage 1 and answer the following questions.

Passage 1
By Ehigiamusoe & Lean (2018)

Over the past three decades several Sub-Sahara African countries have embarked on reforms in the financial and external sectors with a view to accelerating economic growth and development. Although such reforms have enhanced sector development, levels of development achieved have remained low compared to levels achieved in the financial and external sectors of advanced economies. Moreover, the financial systems of most Sub-Sahara African countries are dominated by the banking sector with stock markets remaining relatively underdeveloped. The failure of government interventions into financial systems in West African countries (e.g., Ghana, Nigeria, etc.) in the 1980s prompted most of these countries to embark on structural reforms involving interest rate liberalization, credit control elimination, the restructuring and privatization of commercial banks, the adoption of indirect instruments of monetary policy and the development of financial systems (Mehran et al., 1998; Ncube, 2007).

The finance-growth nexus, trade-growth nexus and finance-trade nexus are mixed, conflicting and inconclusive. It has been argued that countries with developed financial systems tend to grow faster and to exhibit stronger economic performance than countries with poorly developed financial systems (Baltagi et al., 2009; Fung, 2009). Additionally, Ndulu, Chakraborti, Lijane, Ramachandran, and Wolgin (2007) asserted that inadequate financial development and poor international trade are partly responsible for the poor economic performance of most developing countries in Africa. Thus, through capital accumulation and productivity growth, financial development accelerates economic growth (Shan & Jianhong, 2006). However, some empirical studies (Blanco, 2009; Esso, 2010; Gozgor, 2015) report that the direction of the causal relationship runs from economic growth to financial development. These studies show that as the economy grows, more financial products, services and instruments are demanded, promoting financial system development.

Rapp and Udoieva (2016) found that while stock markets accelerate economic growth and mitigate economic risks, private sector credit does not have any significant impact on growth. Badeeb and Lean (2017) also found that financial development does not play any significant role in enhancing real sector activities of a resource-based economy.

On the finance-trade nexus, Baltagi et al. (2009) noted that trade and financial openness have significant impacts on financial development. Thus, in enabling international trade and capital accounts, a relatively closed economy can benefit significantly. Kim, Lin, and Suen (2010) found a positive long-run relationship and a negative short-run link between trade openness and financial development for relatively low- and high-income countries. Trade openness appears to be more essential for developing countries while financial openness appears to be more fundamental for advanced countries.

On the trade-growth nexus, Klein and Olivei (2008) found that economic growth can be accelerated through capital account liberalization and by deepening a country's financial sector. Sbia (2014) found a long-run unidirectional causal relation from trade openness to economic growth and a short-run bidirectional causal relationship between the two variables. However, Farhani and Ozturk (2015) found no causal relationship between trade openness and economic growth. Thus, the relationships between financial development, trade openness and economic growth for Sub-Sahara Africa remain unclear due to the conflicting and inconclusiveness results of empirical studies.

Continued ...

This study will measure the tripartite relationship between financial development, trade openness and economic growth for Ghana, Nigeria and South Africa.

The objectives of this study are to examine the short run and long run causal relationships between financial development, trade openness and economic growth for Ghana, Nigeria and South Africa. We found that a long-run causal relation runs from financial development and trade openness to economic growth for all the countries examined, thereby supporting the finance and trade-led growth hypotheses. We also found long-run causality running from financial development and economic growth to trade openness for Ghana. Though we found no long-run causality from trade openness to financial development, we found evidence of short-run causality. Hence, a tripartite relationship between finance, trade and growth is evident from this study.

Extracted from Ehigiamusoe, K. U., & Lean, H. H. (2018). The title of this journal is withheld due to the nature of the exam question. *Contemporary Economics, 12*(2), 189–207. https://doi.org/10.5709/ce.1897-9254.271

Based on Passage 1 and answer the following questions.
(a) Suggest a suitable topic for Passage 1.   (2 marks)
(b) Write a concise problem statement for the topic you have suggested in (a).   (12 marks)
(c) Identify the research objectives of the study in Passage 1.   (6 marks)

Question Two (Total: 20 marks)
Read Passage 2 and answer the following questions.

Passage 2
By Hou (2018)
The impact of secondary and high school education on consumption behavior of young adult is found to be associated with social recognition. The life-cycle hypothesis, developed by Franco Modigliani and his student Richard Brumberg, sees rational consumers would expect persistent income according to future revenue and wealth growth, and the current consumption to be determined based on their persistence income. The life-cycle hypothesis explains how individuals would even out their consumption in the best possible way they can, over their entire life time, by accumulating their earning, saving and dis-saving when they retire.

Besides life-cycle hypothesis, the new theory of human capital (Heckman, 2006) divided human capital into cognitive and non-cognitive capabilities. The theory states that both cognitive ability of the workforce (ability of mathematics and calculations, vocabulary and sentence comprehension) and non-cognitive ability (job stability, reliability, social skills, etc.) have a significant impact on wages and future achievements. By imitating consumer behaviors of specific social groups, it can show homogeneity between itself and those around it, and then improve positioning and identity recognized by society (Weber, 1987).

Besides economic factors, social factors such as social recognition, demonstration effects will also affect consumption. The social factors that affect consumption are also influenced by cognitive and non-cognitive skills. Cognitive competence is generally defined as academic and computational, vocabulary and sentence comprehension and reading comprehension. Spence (1973) claimed that cognitive ability played a role in social stratification, and those with high academic qualifications would have high skills to gain greater success and gather new skills in the new environment.

There is relatively little research on cognitive and non-cognitive skills in China. Huang (2017) studied the level of cognitive ability and non-cognitive ability and found that the higher the cognitive and non-cognitive ability of China's urban labor force, the higher the income; but the explanatory power of both abilities after controlling the education level decreased significantly.

Continued ...

Liu (2017) also found similar results, and learned that family environment played an important role in enhancing non-cognitive ability.

This article selects the secondary vocational school graduates and high school graduates and controls the differences of the number of years of education and their corresponding potential cognitive abilities, and combines the characteristics of the dual labor market in China. This study examines how vocational education relative to general education affect the characteristics of consumer behavior by changing non-cognitive ability through education.

Extracted from Hou, J. (2018). The title of this journal is withheld due to the nature of the exam question. *Journal of Applied Finance & Banking*, 8(6), 111–129.

Based on Passage 2, answer the following questions.
(a) Explain the meaning of applying theory to a research.   (6 marks)
(b) Identify the purpose of the study in Passage 2.   (2 marks)
(c) Discuss the theoretical background used to develop the research design in Passage 2.
                                                                      (12 marks)

SECTION B: STRUCTURED QUESTIONS (Total : 60 Marks)

Question One (Total: 30 marks)
(a) Why do you review past literatures when you conduct a research?   (6 marks)
(b) Explain how writing makes you learn in research.   (6 marks)
(c) What is purpose of scholarly writing?   (3 marks)
(d) Discuss how you would evaluate or review past literatures.   (15 marks)

Question Two (Total: 30 marks)
Read the *Abstract* below and answer the following questions

Abstract
By Fan and Hossain (2018)
China and India are the two biggest transitional and developing economies of Asia but both countries differs in terms of the level of structural change, technological innovation, trade, energy use, economic growth, culture and religious beliefs. The aim of this study is to examine and compare the long and short-run relationships between technological innovation, trade openness, CO_2 emission and economic growth of China and India over the period of 1974-2016. Our results revealed that technological innovation, trade openness and CO_2 emission have significant, positive impact on economic growth in the long-run but mixed effect in the short-run in China. For India, trade openness and CO_2 emission have a significant positive impact in the long-run but CO_2 emission has a negative impact in the short-run on economic growth. Technological innovation is not significant in the long-run for both countries. Technological innovation and trade openness are also not significant to economic growth for India in the short-run.

Extracted from Fan, H., & Hossain, I. (2018). Technological Innovation, Trade Openness, CO 2 Emission and Economic Growth: Comparative Analysis between China and India. *International Journal of Energy Economics and Policy, 8*(6), 1–18. https://doi.org/10.32479/ijeep.7171.

Suppose you were to conduct a similar study to the *abstract* above, but within the ASEAN region.
(a) Suggest **four** variables that you will use in your study. Justify your suggestions.   (4 marks)
(b) What are the data that you can use to represent your variables suggested in (a)?   (4 marks)
(c) Based on your suggestions in (a) and (b), express the econometrics analysis that you will employ to conduct your study.   (10 marks)
(d) Discuss how you would interpret the results of your analysis.   (12 marks)
                                                      END OF PAGE